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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001594

SIPDIS

CPA FOR AMBASSADOR JONES
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RIYADH FOR TUELLER

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TAGS: [EINV](#) [PREL](#) [BEXP](#) [ETRD](#) [KU](#)
SUBJECT: KUWAIT WAVERS ON COMMITMENT TO RESERVE AL-ZOUR
NORTH POWER PROJECT FOR US FIRMS

REF: 03 KUWAIT 2541

Classified By: Charge d'Affaires Frank C. Urbancic,
Reason 1.4b

1. (C) SUMMARY. General Electric and Fluor officials have informed post that the Government of Kuwait may have backed away from the Amir's 1996 promise to President Clinton that US firms would have exclusive rights to build the next major electricity generating plant, now anticipated to be the \$2 billion, 2500 megawatt Al-Zour North (AZN) facility. Ministry of Energy Undersecretary Saud Al-Zaid told a Fluor delegation on May 17 that the Ministry has lowered the experience and capacity requirements specified in a bootleg prequalification package that has been circulating, and confirmed that the bidding process (at least) would be open to non-American firms. The prequalification package and list of approved suppliers is due to be released within two weeks, and the tendering and awarding process is scheduled to be finalized by March 31, 2005. GOK officials offered industry representatives no explanation for the shift away from the Amir's commitment. Fluor representatives -- and their local partner -- suspect politics have played a major role. It may be that the Kuwaitis fear that restricting bidding to US companies could allow US companies to conspire to keep prices high. Post will press the Minister of Energy to respect the Amir's pledge. END SUMMARY.

2. (C) A General Electric (GE) official informed EconCouns on May 16 that the Government of Kuwait (GOK) has abandoned the Amir's 1996 promise to President Clinton that US firms would have exclusive rights to build the next major power plant in Kuwait, now expected to be the \$2 billion, 2500 megawatt Al-Zour North (AZN) facility. According to Gulf Region Sales Manager Andrey Tankilevitch (protect), Ministry of Energy Undersecretary Saud Al-Zaid said that the US-only commitment for AZN was dead and the GOK would "let the best (company) win." In a May 17 meeting with Charge, Fluor's Kuwait site manager Robert Midgley (protect) described his meeting that day with GOK officials that tended to second what Tankilevitch had reported earlier. Midgley said that when a Fluor delegation asked Al-Zaid whether the GOK would respect the Amir's pledge, the U/S replied they should "wait and see" the prequalification documents. Al-Zaid also indicated that the Ministry has lowered the experience and capacity requirements specified in a bootleg prequalification package that has been circulating, this suggesting that the bidding process (at least) would be open to non-American firms.

3. (C) In his May 12 meeting with GE, Al-Zaid revealed additional details about the tender. According to Tankilevitch, Al-Zaid is "certain" that the prequalification package and list of approved suppliers will be released within two weeks. (Note. Al-Zaid told Fluor that the approved supplier list would be provided to bidders a month after the prequalification packet is issued. End Note.) Engineering procurement construction contractors will have approximately 90 days to complete their submissions; a consulting firm will then evaluate the proposals and present their results to the Ministry two months later. The tendering and awarding process is scheduled to be finalized by March 31, 2005 -- the end of the 2004-05 fiscal year.

4. (C) There appears to be some disagreement within the Ministry about the minimum number of bidders necessary for the project to move ahead. According to Midgley, Al-Zaid informed them that the bid would be cancelled if there were fewer than four bidders. But the Assistant U/S corrected his boss to say that according to Central Tender Committee rules -- which will govern the tender -- there need only be two bidders, as Midgley described it.

5. (C) Although GOK officials offered no explanation for the presumed shift away from the Amir's commitment, the Fluor representatives -- and their local partner -- suspect that a long-term political struggle (not identified) behind the scenes has played a major role. Although disappointed by this development, they said they are not terribly shocked. Indeed, Midgley quipped that Fluor would have found it "staggering" if a project in the Middle East was restricted

to a selected group of bidders. However, the company is wondering how this change will impact the project timeline and whether it will have a negative impact on American bidders.

16. (C) The Charge expressed his disappointment with the GOK's apparent change of position, wondering whether the Kuwaitis might be afraid that if they restrict bidding to US companies, the companies would conspire to keep prices high. A Fluor representative hinted broadly that this might in fact be the case. He said that Fluor has consistently found companies from the Far East willing to build such projects at almost no profit, while US and other Western companies could not bid on a no-profit basis. He worried that Far East competition and pricing might knock Fluor out of the running. The Charge promised to press the Minister to respect the Amir's pledge, but acknowledged that if the GOK already has moved forward on the project with the intent to permit open competition, the Embassy would be hard pressed to stop it now.

17. (C) COMMENT. Post will seek clarification from the Energy Minister about this apparent change of heart. We are hopeful that, even if the bidding is opened up, a US firm will eventually be chosen for the AZN project on the basis of merit alone.

18. (U) Baghdad minimize considered.
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